

# NATIONAL CREDIT UNION ADMINISTRATION

# NCUA News

## NCUA holds CU Capital Summit

Credit union leaders from across the nation participated Oct. 19 in NCUA's Summit on Credit Union Capital at agency headquarters. The forum covered issues relating to the impact of capital and prompt corrective action for natural person credit unions and capital issues relating to the corporate credit union system.

"This summit is a very important and valuable step as we continue focusing and evaluating a much needed new approach to capital affecting both the natural person and corporate credit union system," said Chairman Johnson.

"Capital is a critical issue affecting all institutions, and I believe the time has come for action to address these issues. I strongly support a risk-based structure for capital. While legislation is required for certain structure changes, I believe we need to facilitate a safe and sound risk-based approach, wherever possible, within NCUA's own regulatory authority."

"While I welcome thoughtful comments from the industry, we must not lose sight of the fact that any change to NCUA's capital formula would first take an act of Congress," noted Matz. "This is a long-term issue and I am pleased that we have begun a meaningful dialogue."

### Johnson proposes restructuring CU capital and improving RegFlex

In the week following the NCUA Summit on Credit Union Capital, Chairman JoAnn Johnson announced three key areas NCUA should review to address capital concerns impacting CUs.

1. Lower the RegFlex qualifying net worth ratio from 9 percent to 7 percent for well-managed, well-capitalized natural person credit unions.
2. Provide the option to release the portion of a secondary capital

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## HIGHLIGHTS

News briefs	2
Board actions	3
Risk alert	4
"Best practices" webinar	4
Conversations with America	4
Publications list/ subscription form	5-6
HUD Secretary praises CUs and NCUA	7
18.4 million potential underserved members added	7
Largest PALS workshop	8
Evolving ATM connections	9
About investments	9
Financial education tools unveiled	10
Guide to using free software	10



**October 19, 2004, NCUA Boardroom** – NCUA directors J. Owen Cole, Jr., Office of Strategic Program Support and Planning; Kent Buckham, Office of Corporate Credit Unions; and David M. Marquis, Examination & Insurance; with Chairman JoAnn Johnson and Board Member Debbie Matz listen to Lee Butke, president/CEO, Corporate One Federal Credit Union and Kelly Schermerhorn, CEO, Harvest Federal Credit Union, the first presenters at the Summit on Credit Union Capital.

account that no longer counts as net worth for well-managed, highly-rated low-income credit unions.

3. Pursue risk-based capital for the corporate credit union system.

"While we all recognize that moving to a risk-based system for natural person credit unions will require a statutory change, these are three areas where it may be possible to make improvements in credit union capital without the need for legislative change," said Chairman Johnson, who directed agency staff to begin reviewing regulations and drafting related proposed rule changes.

"If we agree that 7 percent leverage is an unnecessarily high ratio for well-capitalized status under a system of risk-based prompt corrective action, then we

*continued from page 2*

## News briefs

**Civil money penalties (CMPs) adjusted for inflation** – The NCUA Board has evaluated and adjusted its CMPs for inflation. Congress requires federal agencies that impose CMPs to evaluate them every four years to ensure they continue to maintain deterrent value.

**Federal Credit Union Bylaws update pending** – The *FCU Bylaws* were last updated in 1999. A request for comment was issued at the September board meeting highlighting issues for comment and requesting suggestions for improvement. The comment period closes November 29th.

**Conversions to Mutual Savings Banks – Part 708a** – The comment period closed October 1 on a proposed rule regarding methods and procedures necessary to ensure a fair and legal voting process. It would require a specific disclosure noting the effects of conversion.

**Mergers and termination of insured status, Part 708b** – The comment period closed September 27 on a proposed amendment to update and clarify various provisions and add disclosures for compliance with the “Federal Deposit

Insurance Corporation Improvement Act,” which requires particular notices and acknowledgements for shareholders regarding private insurance in a conversion.

**ABA v. NCUA** – Oral arguments were heard in Salt Lake City October 7th in the

*American Banker Association v. NCUA* lawsuit challenging the community charter expansion granted Tooele FCU and subsequent approvals of the same community field of membership. A decision from the Court is likely within the next 90 days.

## CU capital summit

*continued from page 1*

should not set the bar even higher for RegFlex,” said Johnson. “The risk added by RegFlex activities is not that significant in a properly managed and supervised credit union, and setting a bar of 9 percent actually causes credit unions to manage to an even higher ratio.”

The Chairman said NCUA should not “micro-manage well managed institutions,” and lowering the qualifying net worth percentage would “provide more options for a credit union and its members.”

Recognizing the significant role of low-income designated credit unions in serving their communities, and the compelling case presented at the Capital Summit, Chairman Johnson noted the agency should seriously consider permitting well-managed, highly-rated low-income institutions to have the option to release the portion of a secondary capital account that no longer counts as net worth.

“Once these funds are no longer counted as net worth, the funds remain on the credit union’s books as an asset drawing down the credit union’s overall net worth ratio. It essentially has a detrimental cost effect, as they are generally a more costly source of funds than share accounts,” Johnson explained.

Also, in leading the agency toward a proposal for returning corporate credit unions to a risk-based capital structure, she said the agency should continue to “actively review the options, as the

action does not require legislation and the agency may accomplish the change through a rule change.”

“I was extremely pleased with participation in the Capital Summit and for the recommendations for improving the capital structure,” said Chairman Johnson. “I look forward to exploring potential changes which will address many of the capital issues affecting the nation’s credit unions.”

Additional summit presenters included: Mary Cunningham, President/CEO of USA Federal Credit Union; William Raker, President/CEO of US Federal Credit Union; Jim Blaine, President/CEO of State Employees’ Credit Union; Parker Cann, Executive Vice

**NCUA should not “micro-manage well managed institutions”**

*Chairman JoAnn Johnson*

President/COO of Arrowhead Credit Union; Francois Henriquez, Senior Vice President and General Counsel of US Central Credit Union; Melissa Marquez, Loan Officer of Genesee Federal Credit Union; Helen Godfrey, President/CEO of Shreveport Federal Credit Union; Bradley Beal, President/CEO of Nevada Federal Credit Union; and Dr. Harold Sollenberger, Professor of Accounting and Information Systems for the Broad Graduate School of Management at the Michigan State University.

Individuals may provide written comments until November 19. Mail comments to Mary Rupp, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Va. 22314, fax to 703-518-6319, or e-mail to [regcomments@ncua.gov](mailto:regcomments@ncua.gov).

NATIONAL CREDIT UNION ADMINISTRATION  
**NCUA News**

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**JoAnn Johnson, Chairman**  
**Deborah Matz, Board Member**

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## Board Actions October 21, 2004

### Final rule addresses leadership change in new or troubled credit unions

The NCUA Board amended §701.14 of the regulations, which describes the procedures that newly chartered or troubled federally insured credit unions must follow before adding or replacing board members or adding or changing duties of a senior executive officer. Adopted as proposed, the amendment eliminates confusion and clarifies the relationship between the prior notice provision and the commencement of service provision in the rule. The amendment also reorganizes the rule.

Amended §701.14 specifies that affected federally insured credit unions must provide at least a 30-day written notice before the effective date when adding or replacing a board member or committee member or when hiring or changing the duties and responsibilities of a senior executive officer. The regulation also describes procedures for filing a waiver request and discusses when an automatic waiver may be granted.

### Member business loan rule revised

The NCUA Board adopted changes to Part 723, the member business loan rule (MBL), enabling credit unions to more fully participate in Small Business Administration (SBA) guaranteed loan programs.

Under the former MBL rule, the collateral and security requirements for MBLs were generally more restrictive than those of SBA guaranteed loan programs and could hamper a credit union's ability to participate fully in SBA programs. The collateral and security requirements of SBA's guaranteed loan programs often were not consistent with the former MBL rule and, therefore, could not be used. The MBL amendments remove this impediment by

exempting SBA guaranteed loans from MBL collateral and security requirements.

"Today's board action finalizes an important rule which will provide greater access for credit union member entrepreneurs," said NCUA Chairman JoAnn Johnson. "As Chairman, one of my priorities has been to facilitate the partnering between the NCUA and other federal agencies. This cooperative partnership has produced positive results for the nation's credit unions by helping align our MBL with the lending programs offered by the Small Business Administration. The SBA programs are ideally suited to the mission of many credit unions to satisfy the business loan needs of their members. By amending our MBL, credit unions will now be able to better align their lending programs with those offered by the Small Business Administration."

"I encourage all credit unions making member business loans to consider working with SBA," emphasized Debbie Matz, the NCUA Board's liaison to SBA. "SBA guaranteed loans enable credit unions to diversify their memberships as well as their assets, while sharing their risks with SBA. However, at our Partnering and Leadership Successes (PALS) workshops on member business lending, we heard that NCUA regulations were preventing many credit unions from making more SBA loans. This final rule will remove those barriers, and open the door to more credit union members who need capital for their small businesses to grow and thrive."

The former MBL rule set collateral requirements in the form of maximum loan-to-value ratios, which were inconsistent with the collateral requirements of SBA's guaranteed loan programs. The amendments remove this impediment by exempting SBA

guaranteed loans from MBL collateral requirements.

Find the new MBL rule is on the NCUA website at [http://www.ncua.gov/RegulationsOpinionsLaws/RecentFinalRegs/final\\_regs.html](http://www.ncua.gov/RegulationsOpinionsLaws/RecentFinalRegs/final_regs.html).

### Quarterly NCUSIF report

The National Credit Union Share Insurance Fund (NCUSIF) ended the third quarter, September 30, 2004, with the following results:

- \$92.8 million in gross income;
- \$60.2 million in operating expenses;
- \$9 million in insurance losses; and
- \$23.6 million in net income.

Through the first nine months of the year, 17 federally insured credit unions have failed costing the NCUSIF \$4.2 million. Based on an expected 6 percent increase in share deposits, the NCUSIF is projected to end the year with a 1.25 percent equity ratio.

The NCUSIF currently holds \$88.6 million in reserves -- \$26 million allocated for designated cases and \$62.6 in unallocated funds.

The NCUSIF is considering a reduction in the reserve level based on a 2003 Government Accounting Office Report recommendation that the agency reserve level be tied to a 2-year rather than the current 15-year historical loss performance calculation.

**Board votes are unanimous unless indicated.**

### Board actions scheduled for November

- NCUSIF Quarterly Update
- NCUA 2005 Budget
- NCUA 2005 Operating Fee Scale



## Risk alert

# Alternative lending requires vigilance

Financial trends indicate that shares are increasing at a faster rate than loan volume. To meet strategic goals, credit unions may strive to increase lending by choosing alternatives such as sub-prime, indirect and outsourced lending.

While each of these lending activities can make good strategic business sense, these types of lending can increase risk — credit, interest rate, liquidity, transaction, compliance, strategic and reputation — and pose safety and soundness concerns. It takes proper planning, experienced staff, adequate controls and monitoring to make these profitable and productive activities for serving members.

Recently released *NCUA Letter 04-CU-13* provides federally insured credit unions with guidance to help achieve success when using these alternative forms of lending.

While **sub-prime** lending involves higher levels of risk and skill, sound underwriting practices, effective control and monitoring systems and sufficient capital levels are key components to a well-managed program. Indirect lending can also provide a source of new members. However, a credit union must properly plan for and understand the risks of the program.

**Indirect lending** is an arrangement where a credit union contracts with a merchant to originate loans at the point of sale (e.g., an auto dealer). An indirect lending program can lead to rapid growth, changing the structure and risk profile of a credit union's balance sheet quickly. In addition to credit risk, on-going evaluation of both a credit union's liquidity and interest rate risk is essential.

**Outsource lending** relationships can provide a credit union with greater flexibility in offering loans to members. Typically, a credit union will contract with a third party to originate or service loans.

*NCUA Letter 01-CU-20* addresses due diligence over third-party service providers offering useful guidance for credit unions in outsourced lending

relationships. The letter highlights planning, background checks, legal review, financial review, and return on investment and controls such as policies and procedures, staff oversight and reporting.

With the proper controls and monitoring in place, outsourcing functions can be a profitable venture.

When a credit union engages in any higher risk activity, it should be compatible with a credit union's risk tolerance, administrative capabilities and strategic goals. The projected and realized impact on a credit union's financial performance should be analyzed regularly and reasonable program limits should be established as well as on-going program monitoring and analysis.

## AIRES Questionnaires

NCUA examiners will be assessing if credit unions involved in specialized higher-risk lending adequately plan, monitor and control these activities on an on-going basis via AIRES (NCUA's examination program) questionnaires. *Letter 04-CU-13* ([www.ncua.gov/letters/2004/04-CU-13.pdf](http://www.ncua.gov/letters/2004/04-CU-13.pdf)) includes the AIRES questionnaires, which contain questions related to these specific activities and provide detailed commentary and explanations.



**Who and What:** Board Member Debbie Matz will address the Tenth Annual CUNA Lending Council Conference.

**When:** Monday, November 15, 2004

**Where:** Sheraton New Orleans Hotel, New Orleans, La.

**Why:** Board Member Matz will encourage credit union leaders to offer lending services that will attract new members in new markets.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov)

**Who and What:** Chairman JoAnn Johnson will address the Metropolitan Area Credit Union Management Association meeting.

**When:** Monday, Dec. 13, 2004

**Where:** Washington, D.C.

**Why:** Chairman Johnson will provide an update on NCUA regulatory issues.

**Contact:** Heather Graham at 703 518-6309 or [hgraham@ncua.gov](mailto:hgraham@ncua.gov)



## Matz keynotes free "best practices" online webinar

NCUA Board Member Debbie Matz shared credit unions' best practices from her Partnering and Leadership Successes (PALS) initiative during a free, online webinar hosted Oct. 28 by the California Credit Union League.

The webinar, "Credit Union Differences: A Best Practice Showcase," with speakers from Calif. and Nev., enabled credit union management and volunteers to listen and view presentations via computer and address questions to the speakers.

Matz observed that "many credit unions are implementing innovative programs that have proven successful in enhancing services and reaching new members. However, credit union peers are often not aware of each other's efforts. As a result, some credit unions spend time and money developing tools that others already have. Through PALS, sharing best practices can inspire more credit unions to form partnerships and offer new services that will enrich the lives of members across the country."

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***Prepayment is required. Payment by check, money order, Visa or Master Card is acceptable.***

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Annual Report of NCUA	8000 (2003)		\$5.00
Chartering and Field of Membership Manual	8007 (3/03)		\$6.50
E-Commerce Guide for Credit Unions	8072 (11/02)		\$5.00
Equal Housing Lender (EHL) Poster			N/C
FBI Decals	1111		N/C
Federal Credit Union Act	8002 (10/98)		\$3.00
Federal Credit Union Bylaws	8001 (10/99)		\$3.50
Federal Credit Union Handbook	8055 (1999)		\$3.50
Federal Credit Unions (Brochure)	8005 (6/96)		\$7.50/100
Fight Identity Theft (Phishing Brochure)	8073 (10/04)		\$8.00/100
Guide to HMDA Reporting	9003 (2004)		\$5.00
HMDA Poster	3222P (6/97)		N/C
Is A Credit Union Right For Me? (Brochure English)	8071		\$8.00/100
Is A Credit Union Right For Me? (Brochure Spanish)	8071S		\$8.00/100
NCUA Credit Union Directory	8602 (2004)		\$15.00
NCUA Examiner's Guide <sup>1</sup>	8018 (6/02)		\$85.50
NCUA Insurance decal - Adhesive (English)	1075 (11/86)		\$1.00/2
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Supervisory Committee Guide for FCUs	8023 (12/99)		\$12.00
- Change 1	8023a (11/02)		\$3.00
Tips to Safely Conduct Financial Transactions Over the Internet (Brochure)	8061 (6/2002)		\$20.00/100
<sup>2</sup> Your Insured Funds (Brochure English)	8046 (2000)		\$14.00/50
Your Insured Funds (Brochure Spanish)	8046S (2000)		\$14.00/50

<sup>1</sup>NCUA's Examiners' Guide is excluded from the Subscription Service.

<sup>2</sup>Your Insured Funds brochure is being revised.

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## HUD Secretary praises CUs and NCUA

Alphonso Jackson, Secretary of the U.S. Department of Housing and Urban Development (HUD), told participants at the Access Across America Economic Summit in Tampa, Fla., October 14th that NCUA plays a vital role in increasing homeownership.

“NCUA is one of the Administration’s strongest allies in boosting minority homeownership,” Jackson said. “Two and a half years ago, when President Bush called on the nation to increase the number of minority homeowners by more than 5.5 million families by the end of this decade, NCUA signed on as a charter member of the American Dream Team and they’ve been with us ever since.”

NCUA’s commitment would mean nothing if the credit unions it regulates weren’t working in America’s communities to create housing opportunities for low-income families, immigrants and renters Jackson added.

“Thank you for stepping up to fill a great need,” he said. “Today, 1.6 million homebuyers are closer to meeting the President’s goal and today, families in many underserved communities no longer need only rely on check-cashing outlets and pawnshops when making a financial transaction. A local credit union may be able to help them instead.”

Jackson noted that credit unions become directly tied to communities by uniting people with their “not for profit, not for charity, but for service” philosophy, especially in minority communities.



HUD Secretary Alphonso Jackson

“The bottom line is that credit unions are helping make low-income and minority communities better places to live and raise a family,” Jackson said. “HUD strongly supports your mission of service.”

Jackson stressed that homeownership builds a sense of community and it provides children a stable living environment. He noted that homeownership has never been higher, with nearly 70 percent of the population owning a home. Minority homeownership is up across the country – in fact, it’s over 50 percent for the first time ever. To keep these numbers strong and growing, the Administration has numerous programs in place and

other recommendations now before Congress to stimulate jobs and housing in lower-income neighborhoods.

“The nation’s credit unions are working right alongside us, and we’re proud to be your partner, Jackson said. “You’ve had unmatched success in reaching the low-income and minority Americans we’re pursuing through the Administration’s homeownership programs. We welcome your expertise in providing credit to America’s fast growing and often-underserved communities. Your work has made this nation stronger... and I salute both your commitment and your compassion.”

### 18.4 million potential underserved members added

*Membership in CUs adopting underserved areas grows 123 percent above average*

America’s credit unions have adopted underserved areas at an unprecedented rate. Membership growth in credit unions that adopted underserved areas in 2004 is 123 percent faster than the national average for all federal credit unions, NCUA Chairman JoAnn Johnson told participants at the Access Across America Economic Empowerment Summit Oct. 14 in Tampa, Fla.

According to NCUA call report data, year-to-date in 2004 credit unions that adopted underserved areas have realized growth in key categories:

- Membership grew 123.1 percent faster than the national average;
- Mortgage loans grew 3.8 percent faster than the national average;
- Share draft accounts expanded 17.4 percent more than the national average.

In the first nine months of this year, 107 federal credit unions adopted 185 underserved areas providing an additional 18,413,333 potential members

with available federal credit union service.

“With greater access to credit unions in their neighborhoods and communities, many underserved Americans now have access to a partner they can count on as they strive to achieve their American Dream, whether it’s becoming a new homeowner or realizing financial self-sufficiency,” said Chairman Johnson. “Credit unions are not only expanding into underserved areas, but are making a real difference for new members who otherwise would be left behind to predatory lenders and check-cashing outlets.”

Chairman Johnson said that the agency’s Access Across America initiative, which focuses on creating economic empowerment for people from all walks of life, has “proven to be effective in reaching out to folks who otherwise would be left behind,” and she commended credit unions that have expanded their fields of membership to include the underserved or “unbanked” areas, resulting in significant credit union growth.





## Largest PALS workshop inspires serving the underserved

*Board Member Matz, Senator Clinton thank CUs for their commitment*

The Partnering and Leadership Successes (PALS) workshop on “Serving the Underserved Without Losing Your Bottom Line” was the largest of eight PALS workshops organized by NCUA Board Member Debbie Matz. Featuring keynote speaker U.S. Senator Hillary Rodham Clinton (D-NY), the Rochester workshop attracted 320 credit union officials from New York State and throughout the Northeast.

“This PALS workshop was a heart-warming demonstration of credit unions’ commitment to serving the underserved,” Matz related. “On a holiday weekend when they could have been enjoying time off with their families, a record number of credit union officials attended our workshop to learn how to reach consumers who are most in need of affordable financial services. Credit union leaders from across New York State not only shared innovative ideas to serve the underserved, they put together funds to do it cooperatively.”

Senator Clinton announced two loan funds as part of her keynote address. New York State credit unions pledged \$100 million to fund mortgages in underserved areas, plus another \$2 million for renters who need emergency loans to avoid losing heat, electricity or other living necessities. Together these funds could help 6,000 households in underserved areas.

“Credit unions are in perfect position to reach out to underserved communities and individuals,” Senator Clinton remarked. “You have embarked on partnerships that will bear fruit.”

Workshop co-host Mike Vadala, CEO of The Summit Federal Credit Union in Rochester, announced two other contributions. New York credit unions will provide \$6,400 to sponsor small business workshops around the state with a new organization called MicroBizNY.

“I helped launch MicroBizNY last December,” Senator Clinton explained, “and I invited credit union leaders to join me because I think it’s a natural partnership... If we can connect the lending and financial education resources of credit unions with the training and technical assistance provided by MicroBizNY,

I’m convinced we can help small businesses grow.”

Vadala also presented a \$3,000 check to Wilson Commencement Park, a transitional housing facility in inner-city Rochester. Executive Director Jean Howard, in her luncheon address at the PALS workshop, compared credit unions to her organization, which works to help the neediest low-income and minority families achieve self-sufficiency. “We both serve people who are underserved by others,” Howard pointed out.

Howard also shared three “pearls” of wisdom to inspire everyone to serve their own communities: “Everyone has talents to contribute to their community; everyone is responsible for the well-being of their community and everyone should be given another chance.”

In that spirit, eight panelists from credit unions of all sizes presented successful strategies for serving the underserved in urban and rural communities. The first panel focused on meeting critical needs through services

including risk-based car loans, home repairs, payday loan alternatives and financial education. The second panel described services to build members’ wealth, including affordable mortgages, member business loans, international remittances and volunteer income tax assistance.

Vadala challenged all credit union officials to “take at least one great idea back to your credit unions, to your members, and to your communities full of potential members. Go back to your offices and work on ways to help members find their dreams, and eventually, fulfill them.”

Senator Clinton concluded that when credit unions reach more underserved consumers, “You will expand your market, because you can fill a market that multinational banks cannot fill. You will not only build your bottom line, you will expand your political base.”

Senator Clinton’s keynote address and all panelists’ presentations are on NCUA’s PALS website. From [www.ncua.gov](http://www.ncua.gov), click PALS, then click “Workshop Presentations.”

Other co-hosts of the PALS Rochester workshop included the National Association of Federal Credit Unions, the National Federation of Community Development Credit Unions, and the New York State Credit Union League.



**October 11, 2004, Rochester, N.Y., —** Board Member Matz welcomes Senator Clinton to the podium at the Rochester PALS conference.



# Evolving ATM connections

Historically, automated transfer machines, or ATMs rely on dedicated (single-purpose) leased communication lines, using legacy protocols (established rules for transmitting and receiving data) such as Systems Network Architecture (SNA) to communicate and transmit data. This method includes potentially high costs (hardware infrastructure, dedicated leased lines, etc.) and unreliability. If local telecommunications go down, the ATM network may go down.

## Web-based ATMs

Web-based ATMs are an alternative that can provide more flexibility and functionality. Features and services of web-based ATMs may include: advertising; scrolling news, sports and weather; investment information; and purchase of non-cash items such as tickets and transportation passes as well as non-cash transactions such as money transfers, brokerage transactions and home banking/bill payment.

An emerging ATM trend is conversion from a leased telephone line to Internet-based communication (TCP/IP) or voice over IP, typically run on Windows software. Benefits include eliminating the expense of a dedicated phone line and reducing management and administration costs while dramatically increasing ATM functions allowing for an effective retail outlet as opposed to a stand-alone cash dispenser. Other TCP/IP benefits include providing multiple paths rather than a single line to transmit information from one point to another as well as an "always on" connection rather than a dial-up connection, which can significantly reduce transaction authorization time.

However, as with any Internet-based application, effective security measures are critical. Because these devices are connected to computer networks, they are

vulnerable to the same types of attacks as networks. Firewall management, virus protection, patch management and active monitoring are all necessary to protect member information as well as minimize down-time for the machines and inconvenience for members.

## Connection is vital

Connecting an ATM directly to the Internet or through a network, which in turn is connected to the Internet, creates its own risks. For example, in August 2003 at least two financial institutions had Windows-based ATMs compromised by the Nachi worm. In January 2003, the Slammer worm indirectly shut down 13,000 ATMs of a large bank by infecting database servers running on the same network as the ATMs.



## Wireless future

In the near future, credit unions may begin using a wireless TCP/IP network to provide connection. Wireless Electronic Commerce (WEC) uses existing cellular digital packet data (CDPD) networks to transmit transaction data. In turn, a wireless modem sends the data, via CDPD, to a service provider's system that processes and formats the transmission for use on the credit union's network. This method virtually eliminates traditional landline infrastructure and related costs. However, it too has risks such as wireless security and privacy during data transmission.

ATM services, and the methods and protocols used to deliver those services, are beginning to expand to encompass new technologies. Before implementing such technologies, credit unions must exercise due diligence, conduct a risk assessment and mitigate unacceptable risks in order to deliver these services to members in a safe and sound manner.

## About investments

### Where are short-term rates headed?

The market expects the Federal funds rate to be about 2 percent by December 2004, based on October 12, 2004, futures prices. This represents a one-quarter percent increase from the mid-October

1¾ percent level. By year-end 2005, the Federal funds rate is expected to be over 2¾ percent.



Tracking interest rate futures is a fairly simple method to determine where the market thinks short-term interest rates are headed. Financial newspapers regularly publish prices for interest rate futures contracts.

Two actively traded futures contracts are the "Federal funds futures contract" (representing the average effective Federal funds rate for one month) and the "Eurodollar futures contract" (representing the interest rate on a 90-day U.S. dollar denominated deposit at a prime bank in London). Each of the contracts is quoted on an index basis, that is, 100 minus the expected interest rate.

As of October 12, 2004, the contract price for December 2004 Federal funds futures was 97.97, which means an interest rate of 2.03 percent. The Eurodollar futures market forecasts a 2.27 percent rate for 90-day deposits in December 2004 and a 3.14 percent rate for December 2005. That represents a 0.87 percent increase in short-term rates from December 2004 to December 2005.

One caveat about forecasting rates: the forecast likely will be wrong. The market's expectations change constantly, incorporating new information. You should prepare for a reasonable range of possible rate scenarios and plan to withstand unexpected increases in rates. As a starting point for interest rate risk measurement, NCUA suggests measuring your exposure to changes in interest rates of one, two and three percent.

## Financial education tools unveiled

*Federal regulators launch national financial education website and hotline*

The new financial education website [www.mymoney.gov](http://www.mymoney.gov) and the toll-free telephone number at 1-888-My Money (696-6639) combine the efforts of numerous federal agencies to develop a website designed to educate consumers about personal finances.

The website offers a litany of financial information and available resources, conveying everything from how to balance a checkbook to applying for credit,

saving for college and planning for retirement, plus whether to pay cash or use credit when making purchases.

The [www.mymoney.gov](http://www.mymoney.gov) website and toll-free hotline were launched by the Financial Literacy and Education Commission, the federal commission created to improve financial education in America. Many publications are available in English and Spanish.



**October 12, 2004, Alexandria, Va.** — Wayne Abernathy, Assistant Secretary for Financial Institutions, Department of the Treasury; JoAnn Johnson, NCUA Chairman; Donna Gambrell, Deputy Director of Compliance and Consumer Protection, Federal Deposit Insurance Corporation; Sharon Brown-Hruska, Chairman, Commodity Futures Trading Commission; and Dan Iannicola, Jr., Deputy Assistant Secretary for Financial Education, Department of the Treasury launch a new financial education website and toll-free telephone number at NCUA.

## Guidance available on using free software

The federal banking, thrift and credit union regulatory agencies have issued guidance to assist financial institutions and their technology service providers evaluate and use free and open source software (FOSS). Steadily increasing, FOSS is software users run, study, modify and redistribute without paying a licensing fee.

While the use of FOSS does not pose different risks than those presented by proprietary or self-developed software, the acquisition and use of FOSS requires implementing unique risk management practices. This guidance is a supplement to the FFIEC IT Examination Handbook, "Development and Acquisition Booklet." It addresses strategic, operational, and legal risk considerations when acquiring and using FOSS. The guidance is available at <http://www.fdic.gov/news/news/financial/2004/FIL11404a.html>.

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NATIONAL CREDIT UNION ADMINISTRATION

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